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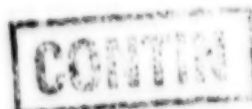
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INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

October/November 1990



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UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

John W. Suomela, *Director*

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Editor, *International Economic Review*
Trade Reports Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 252-1255

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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Aggregate demand is expected to grow more slowly in 1990 and 1991 than in previous years in most industrialized countries due to already high of capacity utilization, tight monetary policies, and less expansionary fiscal positions. These constraints will limit the output growth of industrial countries to a projected moderate annual rate of 2.7 percent in 1990 and 2.9 percent in 1991, compared with an increase of 3.5 percent in 1989 and an increase of 4.4 percent in 1988, according to the International Monetary Fund (IMF). Meanwhile, the volume of world trade is expected to increase by only 6.6 percent in 1990 and by 5.8 percent in 1991 compared with an increase of 7.2 percent in 1989 and an increase of 9.1 percent in 1988. World trade contraction might delay the improvement of the U.S. trade deficit particularly if world demand for U.S. exports diminishes proportionately more than the decline in U.S. demand for imports.

Moreover, disturbances to business activity and financial markets in the United States complicate the Federal Reserve's task of moving the economy toward price stability. Inflation has been higher than expected in 1990, and the economic expansion has been sluggish overall. Tight monetary policy has had a great restraint on aggregate demand, in particular on the growth of residential construction and business investment. Housing starts fell for the eighth consecutive month in September 1990, dropping to their lowest level since the 1981 recession. The Department of Commerce reported that housing starts fell by about 0.6 percent between August and September 1990 and fell by 10.0 percent from a year earlier. U.S. real business investment as a percent of GNP is projected by the IMF to increase by 1.5 percent in 1990 and by 3.1 percent in 1991, compared to an increase of 3.4 percent in 1989 and an increase of 8.4 percent in 1988. In Germany, real business investment as a percent of GNP is expected to grow by 6.0 percent in 1990 and by 4.8 percent in 1991. In Japan, real business investment as a percent of GNP is expected to increase by 9.6 percent in 1990, and by 5.5 percent in 1991.

Meanwhile, the U.S. position as the world leader in innovation seems to remain unchanged if measured in terms of absolute gross domestic expenditure on research and development. Recent data released by the Organization of Economic Cooperation and Development (OECD) show that the United States continued to spend the highest amount on R&D from 1975 to 1985. In 1987, the United States spent \$120.0 billion on research and develop-

ment compared to \$46.0 billion by Japan and \$23.0 billion by Germany. However, relative to gross domestic product (GDP), the United States no longer spends the highest amount. In 1987, the United States spent 2.7 percent of GDP on research and development, whereas Japan spent 2.9 percent, Germany 2.8 percent, and France 2.3 percent.

Economic Growth

The annualized rate of real economic growth in the United States in the second quarter of 1990 was revised downward to 0.4 percent from the 1.2 percent previously estimated. The downward revision reflected a decline in U.S. earnings on investment abroad. The rate of growth registered in the first quarter was 1.7 percent. The annualized rate of real economic growth in the second quarter of 1990 was 1.4 percent in the United Kingdom, -3.5 percent in West Germany, 0.4 percent in France, 3.6 percent in Japan, -1.6 percent in Canada and -0.8 percent in Italy.

Industrial Production

U.S. industrial production increased by 0.2 percent in September 1990. The August index was revised upward to an increase of 0.1 percent, and 0.2 percent in July 1990. The September 1990 index was 2.2 percent higher than it was in September 1989. Total output in September 1990 was boosted by a 7.5 percent increase in the output of motor vehicles and parts.

Capacity utilization in manufacturing, mining, and utilities remained unchanged in September 1990 at 83.6 percent.

Other major industrial countries reported the following annual growth rates of industrial production. In the year ending August 1990, West Germany reported an increase of 4.7 percent, and the United Kingdom reported a decrease of 1.8 percent. In the year ending July 1990, Japan reported an increase of 7.5 percent, Italy reported a decrease of 0.8 percent, and Canada reported a decrease of 1.3 percent. In the year ending June 1990, France reported an increase of 1.0 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.8 percent in September 1990 from the previous month, and increased by 6.6 percent during the year ending September 1990.

During the 1-year period ending September 1990, consumer prices increased by 3.0 percent in West Germany, 6.3 percent in Italy and 10.9 percent in the United Kingdom. During the year ending August 1990, consumer prices increased

3.5 percent in France, 2.9 percent in Japan, and 4.1 percent in Canada.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) rose to 5.6 percent in September from 5.5 percent in August 1990.

In September 1990, West Germany reported 7.1 percent unemployment and Canada reported 8.4 percent. In August 1990, Italy reported 10.4 percent unemployment, Japan reported 2.0 percent, the United Kingdom reported 5.8 percent, and France reported 8.9 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 1 shows macroeconomic projections for the U.S. economy for July 1990 to June 1991, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter. The forecasted averages point to sluggish growth in nominal GNP and a decline in real GNP in the

remainder of 1990 and the first quarter of 1991 followed by a slight improvement in the second quarter of 1991. The main reasons for the modest growth in 1990 and 1991 are the expected continuation of the Federal Reserve's tight monetary policy and the impact of high interest rates on U.S. business spending, the rise in oil prices if the Persian Gulf crisis continues or intensifies, the contractionary fiscal positions adopted by the United States and a possible decline in U.S. exports as a result of expected contractionary fiscal policies abroad. The average of the forecasts predicts an increase in the unemployment rate in the remainder of 1990 and the first two quarters of 1991. Inflation (measured by the GNP deflator index) is expected to rise initially and then dip in the second quarter of 1991.

U.S. TRADE DEVELOPMENTS

The U.S. merchandise trade deficit widened slightly in August 1990 due to the accelerated rise in imports over the rise in exports of industrial commodities, plus higher prices and a higher volume of oil imports.

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in the tabulation at the top of the next page.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1990-91

Quarter	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore- casts
GNP:¹					
1990:					
July-September	7.3	5.4	7.7	4.3	6.2
October-December	3.1	3.5	-0.6	3.2	2.3
1991:					
January-March	1.4	3.9	3.5	5.5	3.6
April-June	5.1	4.4	4.7	6.6	5.2
GNP:²					
1990:					
July-September	0.7	0.7	1.6	1.1	1.0
October-December	-3.0	-2.0	-1.3	-1.1	-1.8
1991:					
January-March	-3.1	-1.6	0.1	-0.6	-1.3
April-June	2.5	0.4	0.8	1.2	1.2
GNP deflator index:					
1990:					
July-September	6.5	4.6	6.0	3.1	5.1
October-December	6.3	5.6	0.7	4.4	4.2
1991:					
January-March	4.6	5.6	3.4	6.2	5.0
April-June	2.5	4.0	3.8	5.3	3.9
Unemployment, average rate:					
1990:					
July-September	5.6	5.6	5.6	5.6	5.6
October-December	6.0	5.9	5.9	6.0	5.9
1991:					
January-March	6.7	6.3	6.2	6.4	6.4
April-June	6.9	6.6	6.4	6.7	6.6

¹ Current dollars.

² Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data published by The Conference Board. Used with permission.

	Exports		Imports		Trade balance	
	July 90	Aug. 90	July 90	Aug. 90	July 90	Aug. 90
Current dollars						
including oil	32.1	32.6	41.2	42.0	-9.1	-9.4
excluding oil	31.8	32.1	37.2	37.1	-5.4	-5.0
1987 dollars	29.9	30.3	39.3	38.5	-9.4	-8.2
Three-month-moving average	33.0	33.0	40.4	40.9	-7.4	-7.9
Advanced technology products (not seasonally adjusted)	7.7	7.5	5.1	4.9	2.6	2.6

The seasonally adjusted U.S. merchandise trade deficit in current dollars (including oil) increased by 3.3 percent in August to \$9.4 billion from \$9.1 billion in July 1990. The August 1990 deficit was 11.9 percent higher than the \$8.4 billion average monthly deficit registered during the previous 12-month period, but 8.7 percent lower than the \$10.3 billion deficit registered in August 1989. Excluding oil, the August merchandise trade deficit decreased by 7.4 percent from July 1990.

In August 1990, both imports and exports of industrial goods increased. However, imports increased considerably faster than exports. A higher volume of oil imports and higher oil prices also contributed to the worsening deficit. Including oil, seasonally adjusted exports in current dollars increased by \$508 million in August to \$32.6 billion, while imports increased by \$725 million to \$42.0 billion. Excluding oil, U.S. imports declined by 0.3 percent to \$37.1 billion in August from \$37.2 billion in July 1990. The U.S. oil import bill increased to \$4.9 billion in August from \$4.0 billion in July 1990.

In contrast, on a cumulative January–August basis, the seasonally adjusted merchandise trade deficit declined by 12.6 percent from a year earlier to \$64.5 billion from \$73.8 billion; exports increased by \$19.6 billion whereas imports increased by \$10.5 billion.

In seasonally adjusted constant dollars, the August trade deficit decreased by \$1.2 billion from July 1990. The trade surplus in advanced technology products remained almost unchanged at \$2.6 billion in August from July 1990. (Advanced technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields—for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Export changes on a monthly and cumulative year-to-date basis for specified major exporting sectors are shown in table 2. The August 1990 data show export increases over July in organic and inorganic chemicals, textile yarns, fabrics

and articles, vehicle parts, and electrical machinery. Exports decreased from July 1990 in airplanes, iron and steel mill products, specialized industrial machinery. A slight decline was recorded in automatic data processing equipment and office machinery, and the "other manufactured goods" category.

Sectors that recorded the highest increases in exports for the January–August 1990 period compared with the same period of 1989 included airplanes; "other manufactured goods"; textile yarns, fabrics and articles; telecommunications; and vehicle parts.

In August 1990, imports declined in some sectors and increased in other sectors. The largest percentage import declines occurred in imports of airplanes (down 33.1 percent), airplane parts (down 10.8 percent), and scientific instruments and parts (down 7.1 percent). The largest import increases occurred in new cars (up 29.5 percent), vehicle parts (up 11.4 percent), and organic and inorganic chemicals (up 5.6 percent).

The U.S. agricultural trade surplus rose to \$1.2 billion in August from \$1.0 billion in July 1990.

U.S. bilateral trade balances on a monthly and cumulative year-to-date basis with major trading partners are shown in table 3. The United States experienced improvements in bilateral merchandise trade balances in August 1990 with Canada, the EC, and the NICs and worsening trade balances with the Federal Republic of Germany, China, and OPEC. The deficit with the NICs narrowed by \$19.0 million. The deficit with the EC declined by \$770 million, and the deficit with Canada declined by \$390 million. Meanwhile, the surplus with the U.S.S.R. turned into a small deficit, whereas the deficit with the Federal Republic of Germany increased by \$140 million. The deficit with OPEC widened from \$1.6 billion to \$2.2 billion, and the deficit with Japan increased to \$3.8 billion from \$3.0 billion. On a year-to-date basis, however, significant improvements occurred in bilateral trade balances with Japan, Canada, the EC and the NICs compared to a year earlier.

Table 2
U.S. exports, not seasonally adjusted, of specified sectors, by specified periods, January 1989–August 1990.

Sector	January-August 1990 Exports	August 1990	January-August 1989 Change	August 1990 over July 1990	January-August 1990	August 1990
	Billion dollars		— percent —			
Manufactures						
ADP equipment & office machinery	16.11	1.91	3.2	- 1.0	6.2	6.0
Airplanes	13.39	1.46	45.9	-14.1	5.1	4.6
Airplane parts	6.30	0.80	9.9	0	2.4	2.5
Electrical machinery	18.60	2.36	11.3	7.3	7.1	7.4
General industrial machinery	10.54	1.26	4.3	-1.6	4.0	4.0
Iron and steel mill products	2.02	0.24	-18.9	-7.7	0.8	0.8
Organic & inorganic chemicals	9.23	1.16	-11.3	13.7	3.5	3.6
Power generating machinery	10.25	1.20	0.2	0	3.9	3.8
Scientific instruments	7.96	0.99	4.60	3.1	3.1	
Specialized industrial machinery	10.32	1.20	6.8	-7.7	4.0	3.8
Telecommunications	5.90	0.80	13.5	0	2.3	2.5
Textile yarns, fabrics and articles	3.28	0.41	15.5	10.8	1.3	1.3
Vehicle parts	9.83	1.18	12.3	10.3	3.8	3.7
Other manufactured goods	14.95	1.82	27.8	-1.6	5.7	5.7
Other manufactured exports not included above	58.73	7.09	8.6	5.5	22.5	22.3
Total manufactures	197.45	23.88	9.5	1.7	75.8	75.2
Agriculture	26.43	2.89	-3.8	6.6	10.1	9.1
Other export	36.70	4.98	9.9	9.9	14.1	15.7
Total exports	260.58	31.75	8.0	3.3	100.0	100.0

Note: Detail lines may not add to totals because of rounding.

Source: U.S. Department of Commerce News (FT 900), August 1990.

Table 3
U.S. merchandise trade deficits (-), surpluses (+) in billions of dollars, not seasonally adjusted, with specified areas.

Area and country	August 90	July 90	August 89	January– August 90	January– August 89
Japan	-3.78	-2.97	-3.94	-26.34	-32.35
Canada	-0.51	-0.90	-0.54	- 3.52	- 5.64
Fed. Republic of Germany	-1.14	-1.00	-0.87	- 6.48	- 5.62
EC	-0.23	-1.00	-0.74	+ 4.12	+ 0.35
Western Europe	-0.37	-1.33	-0.64	+ 2.63	- 1.48
NICs	-2.26	-2.45	-2.72	-13.06	-15.42
U.S.S.R.	-0.04	+0.12	+0.08	+ 2.04	+ 2.67
China	-1.14	-1.13	-0.59	- 6.34	- 3.33
OPEC	-2.16	-1.55	-2.03	-14.45	-11.44
Total trade balance	-10.11	-10.51	-11.03	-62.00	-71.21

Note. NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Source: U.S. Department of Commerce News (FT-900), August 1990.

INTERNATIONAL TRADE DEVELOPMENTS

Post-Uruguay-Round Predictions

Recent news reports from Geneva have varied concerning the results of the Uruguay Round of GATT-sponsored trade negotiations scheduled to conclude with a meeting of trade ministers in Brussels in early December. Given the breadth and complexity of issues under consideration, it is not surprising that assessments differ. A recent conference in the United States explored problems and prospects of the Uruguay Round (UR). Sponsored by the National Bureau of Economic Research (NBER), the conference brought together trade specialists from universities, government, and the private sector. The proceedings will be published by NBER.¹

Two experts offered a report card for the Round. An overall grade of B was awarded, with the prediction that the final package will merit the support of Congress.² There was no unanimity among conference participants on the prospects for success in the Round.

Some veteran participants at the conference said that the General Agreement on Tariffs and Trade (GATT) has come a considerable way in the recent past: for example, the idea that international trade in services might be encompassed by the General Agreement was unthinkable as recently as 10 years ago. The overall vitality of the GATT more than 40 years after its inception was illustrated by the number of countries now seeking to join the organization, other participants believed.

There was disagreement over the wisdom of the Uruguay Round strategy of negotiating a comprehensive agreement rather than taking a issue-by-issue approach. On one hand, people were heartened that GATT members were willing to tackle such a formidable array of thorny issues in the Round. On the other hand, concern was expressed that such an ambitious agenda was bound to bring some disappointment. The list of unfinished business at the conclusion of the Round may prove daunting, fueling pessimism about the GATT system and spurring renewed interest in bilateral or unilateral solutions to trade problems. In addition, a comprehensive approach is inherently more complex because it implies that agreements will be balanced across issue areas as well as between and among different countries. Developing countries for example, may be unwilling to liberalize intellectual property rights, services, and investment without corresponding concessions from developed countries in the areas of textiles, safeguards selectivity and agriculture.

There was consensus, however, that a strong UR outcome is needed if the GATT is to remain

a viable institution. Lack of sufficient progress in areas such as services and intellectual property could render the GATT irrelevant to much of world commerce, some experts cautioned. Conversely, strengthening the GATT as an institution and a forum for dispute settlement was seen as a needed stabilizing influence in a world where economic power rather than military might will determine global influence.

Indeed, the importance of the negotiating process itself and the inhibiting effect it has on non-GATT solutions to bilateral trade problems were pointed to as one reason to continue the UR beyond its formal conclusion (through broadening of framework agreements, widening of sector coverage, etc.) There was widespread recognition that the single-market initiative of the European Community and the United States-Canada Free-Trade Agreement (FTA) will result in a further movement toward large trading blocs in the nineties. The European Community (EC) was seen as likely to be augmented by the EFTA countries and eventually by Eastern Europe. A North American area of the United States and Canada plus Mexico also may be in the cards. In the Pacific Rim, a trading bloc led by Japan and encompassing the ASEAN countries, Korea, and perhaps Australia and New Zealand is a possibility.

A number of NBER observers felt that the climate of the post-UR world will be considerably more belligerent as these trading blocs consolidate. Among the possible outcomes are an increase in the section 301-like measures by other GATT members. As yet unanticipated difficulties surrounding the formation of trade blocs will have to be addressed in the context of multilateral discipline to world trade, participants agreed. This could come in either a subsequent round of talks—a most unlikely prospect at this point—or in ongoing refinements and alterations to the results of the current round.

A favorable development that could accompany any grouping of the world into three trading areas might be that a form of competition policy could evolve and eventually supplant existing antidumping policies, if only on a regional and a provisional basis. Such a step could lead to the ultimate dismantling of antidumping measures. One NBER speaker maintained that efforts to effect a convergence of national policies among the major industrial countries in the areas of anti-trust, R&D and other high-tech promotion, and industrial standards argue for an expanded OECD role in these areas once the Round is completed.

¹ The National Bureau of Economic Research, Inc. is located at 1050 Massachusetts Avenue, Cambridge, Mass. 02138.

² The areas receiving the weakest grades included tariffs, agriculture, safeguards, textiles, and trade distorting investment practices.

The conference also explored the role of Congress in the evolution of trade policy in the post-Uruguay-Round era. Citing the Omnibus Trade and Competitiveness Act of 1988 as a high-water mark of congressional interest and involvement in trade, three experts argued that the conditions that accounted for such activism are no longer present.³ Neither are there likely candidates to lead a congressional charge into trade policy-making, given the recent diffusion of power and authority in the legislative branch. It was pointed out, however, that UR implementing legislation will be a ready vehicle for congressional involvement.

Congress is skeptical about UR results, one Hill staffer observed, since they have seen little analysis of any positive quantitative impact of the previous (Tokyo) round of MTNs. The oversight mode that has evolved over the last 15 years places greater emphasis on the costs and benefits of changing U.S. trade laws. Also, a possible anti-UR coalition of farmers, textile interests, and import-competing manufacturers is likely to be stronger than the pro-UR services and high technology industries. For that reason some experts maintained that a small UR package stands a better chance of passing Congress than a larger, broad-based one.

Regarding Congressional approval and oversight, it was pointed out that since the original predictions of Administration negotiators on the value of the Tokyo Round package were wildly optimistic, Congressional leaders are casting a jaundiced eye at recent Bush Administration predictions of UR results. Moreover, there was some concern that the Congress might be handed an "empty package" in 1991, since it appeared that agreements on most major U.S. issues in the Round have thus far proved elusive. A significant part of world trade is still accounted for by manufactured goods, and the United States seems to be on the giving rather than the receiving end on these issues in Geneva, some participants said. Congress might prove unwilling to give up protection of textiles, farmers and unfair trade practices (antidumping, countervailing duty and 301 laws) in return for general 'framework' agreements in services and banking. Most participants agreed that a further deterioration in the U.S. economy would worsen the prospects for easy Congressional approval of Uruguay Round results. The decision whether to grant the President fast-track authority to enter into a free-trade agreement with Mexico (due to be made in the spring of 1991) was seen as a good bellwether of the Congressional mood next year.

EC 1992: Bane or Boon to the Uruguay Round?

The EC's 1992 program has heightened EC influence in the world economic order and is bound to exert a major influence on the Uruguay Round of Multilateral Trade Negotiations, a panel of distinguished trade experts predicts. How the EC will affect the Round's outcome is still unclear. Speaking at an October 5 conference sponsored by the National Bureau of Economic Research (NBER), one panelist predicted that the 1992 program could lead the EC to take a myopic view of the world trading system, although others believed that the EC's new-found sense of purpose could be constructively channeled to breathe new life into the GATT.⁴

Arguing that the emerging integrated European market represents a more serious challenge to U.S. trade policy and the multilateral trading system than does Japan, the Council on Foreign Relations' C. Michael Aho urged U.S. policymakers to use the Uruguay Round of multilateral trade negotiations to ensure that the 1992 program does not jeopardize U.S. interests. Aho warned that the 1992 program was both preoccupying European negotiators and causing them to drag their feet on crucial items of interest to the United States in the Uruguay Round. The EC has been the stumbling block to agreement on agriculture, and may also frustrate progress on other issues such as intellectual property, Aho claimed.

Suggesting an overlap between the 1992 program and the Uruguay Round in areas such as services, government procurement, and safeguards, Aho said that the Round represented a valuable instrument to influence the internal market process. However, he said, it is still an open question whether the Round will serve as a useful forum for bringing needed international pressure on the EC. It is entirely possible that "the Round will be held hostage to the EC's restructuring," he said, particularly given the likely resistance of European businesses and workers to further liberalization in the GATT when they already face wrenching changes as a result of 1992. The EC may also take an inflexible and "lowest common denominator" approach to the Round because of deals cut among member states on Internal Market measures, Aho claimed. For example, the transference of member-state quotas on textiles into EC-wide limits may well influence the EC's position in the Textiles Negotiating Group.

Some of the EC's internal market policies are in tension with U.S. positions in the Round, Aho believes. A proposed auto arrangement between the EC and Japan would be in effect through at

³ "Congress and U.S. Trade Policy in the Nineties," Raymond Ahearn, Allan Mendelowitz, and Alfred Reifman.

⁴ Full conference proceedings will be published by NBER. The National Bureau of Economic Research, Inc. is located at 1050 Massachusetts Avenue, Cambridge, Mass. 01238.

least 1997, and is set to include cars produced in Europe carrying a Japanese nameplate. This selective, grey area measure is exactly the type of action the Safeguards Negotiating Group is trying to discipline in the Round, Aho pointed out. Moreover, the EC's use of reciprocity criteria in Internal Market measures such as those on banking and government procurement may poison the well for true multilateral liberalization in these areas, a prospect that may be repeated in EC directives on insurance and investment services. Local-content requirements in broadcasting, and the EC's unwillingness to include foreign-affiliated firms in European research consortia create the suspicion that the 1992 program is really code for a "Common Industrial Policy" in the EC, Aho said, with bad effects on the trading system similar to those of the EC's Common Agricultural Policy.

Moreover, he warned, Europe may seek to overcome internal opposition to 1992 liberalization measures by increasing subsidies to dislocated industries and erecting trade protection against foreign suppliers. This could result in an increase in U.S. countervailing duty cases against the EC. At the same time, other perceived unfair trade practices in the EC may result in new U.S. demands for relief. Pointing to recent Japanese experiences under the EC's new antidumping rules, Aho predicted that "foreign suppliers are likely to be arbitrarily discriminated against" in the future. "In the absence of a far-reaching antidumping agreement in the Uruguay Round, outside interests can expect wider [EC] use of antidumping actions to minimize foreign competition," Aho said.

Indeed, Japan and the United States might find common cause in using the Uruguay Round to prevent this kind of back door protectionism. While the EC's primary target for protection appears to be Japan, Aho argued that the United States may be hurt in the process. The EC has already reached tentative agreement with Japan on a "voluntary" restraint on automobiles, he pointed out. The United States has expressed concern about whether U.S.-made cars would also count against the quota. Rules of origin in the semiconductor area have resulted in Japanese computer makers replacing U.S. semiconductors with European-made ones. There is concern that similar EC action on printed circuit boards—temporarily deferred until the Uruguay Round is completed—could be damaging to the U.S. electronics industry. The potentially negative effect on U.S. suppliers of EC rules of origin determinations was underlined in a recent report by the U.S. Chamber of Commerce entitled *Europe 1992: A Practical Guide for American Business* (Update No.2). Aho worried that "forced investment" in industries such as cars and semiconductors would also add to already bloated worldwide capacity in those industries.

Bruce Stokes of the *National Journal* argued that, rather than suffering from the 1992 pro-

gram, Japan might be the biggest beneficiary of it. Pointing to Data Resources, Inc. projections showing a declining U.S. share of the EC market for electrical machinery over the coming 5 years, and a rapidly expanding Japanese share, Stokes warned that the countervailing force of U.S. winners in a unified EC market may not be sufficient to prevent continued trans-Atlantic trade rows in the future. Furthermore, Aho predicted that large U.S. firms with investments in Europe "may not be reliable defenders of American interests because they stand to benefit from an inward looking 1992 effort." Smaller U.S. firms that tend to serve the EC via direct exports may be the real losers if the EC turns protectionist, Aho predicted.

All told, the EC's 1992 program is "incrementally changing the rules of the game," in the world trading system, a development Aho said the United States would be ill-advised to ignore. "The Community's 1992 unification efforts should be made the focal point of multilateral discussions including [those] at the Uruguay Round so that the Community feels constrained when reaching internal decisions." At stake, Aho suggested, was not only future U.S. access to the European market. "Multilateralism hangs in the balance," as negotiators in Geneva and policymakers in Brussels forge agreements by the scheduled December 1990 conclusion of the Round, Aho said. "If the Community blocks progress in the GATT talks, the pressures for the existing multilateral trading system to fragment into regional trading blocs could become overwhelming."

The urgency of the matter is such that Aho suggested a 2-year extension of the Round as a means of keeping Europe "actively engaged in finding multilateral trade solutions." Such an extension would not only increase the likelihood of meaningful agreements on services and other contentious issues, but "provide a venue for continued multilateral scrutiny of the EC's internal restructuring." Moreover, the fact that the 1992 initiative delves further and deeper into nontariff measures than the GATT and the Tokyo Round Codes suggests that article 24 of the General Agreement, which sets forth rules on customs unions, should be reexamined to ensure that potentially affected EC trading partners have a viable vehicle for raising their concerns.

Taking exception to Aho's fundamental premise, Ernest Preeg of Georgetown's Center for Strategic and International Studies suggested that Japan poses at least as formidable a challenge to the world trading system as does the EC. The effects of Japan's closed business practices, extensive ties among banks, industrial giants, and distributors, high-tech targeting, tied foreign aid and massive direct investment have shaken the roots of the world trading system and resulted in near-continual bilateral frictions with the United States, Preeg said. Characterizing the U.S.-EC relationship as "more mature and balanced" than

that between the United States and Japan, Preeg was of the view that such U.S.-Japan tensions left unchecked posed a very real threat to the world trading system. Finally, Preeg argued that the EC is not always the bad guy in the GATT: on issues such as dumping, "it has been the EC and the United States against the world" in the Uruguay Round. Bob Cohen of the Economic Strategy Institute argued that the Internal Market exercise

is having one salutary effect: the EC is speaking with a single voice in more areas as the GATT and the Internal Market expand the EC Commission's negotiating authority to a wider range of nontariff barriers. He saw an urgent need for international discipline in competition/antitrust policy, seeing industrial organization and strategic trade barriers as "key variables" in commerce between the world's major trading regions.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1987-July 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989			1990						
				II	III	IV	I	II	Mar.	Apr.	May	Jun.	Jul.
United States	4.9	5.4	2.6	2.9	-1.3	0.2	0.6	4.0	8.1	-1.1	6.8	6.9	0
Japan	3.4	9.5	6.0	0.0	0.8	2.9	3.5	7.3	21.7	-11.1	35.2	-1.9	19.9
Canada	2.7	4.4	2.3	1.3	-0.2	-1.9	1.7	1.3	-1.8	0	3.7	0	(¹)
West Germany .....	.2	3.2	5.3	4.8	1.4	8.4	8.7	-0.2	22.8	-31.9	72.6	-30.1	33.2
United Kingdom ...	3.4	3.6	.8	-0.7	6.1	0.2	-1.2	10.1	27.0	16.2	-10.1	26.3	-36.2
France	2.1	4.4	3.8	8.7	1.2	-1.2	-2.2	6.3	6.7	18.8	2.2	5.5	(¹)
Italy	2.6	6.9	3.7	3.7	9.4	0.6	-6.2	1.6	8.4	-6.8	2.0	-1.0	(¹)

¹ Not available.Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, October 5, 1990.

Consumer prices, by selected countries and by specified periods, January 1987-August 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989			1990						
				II	III	IV	I	II	Apr.	May	Jun.	Jul.	Aug.
United States	3.7	4.1	4.8	6.0	2.8	4.0	8.1	3.7	1.9	1.9	6.7	4.7	9.6
Japan .....	.1	.7	2.3	9.8	0.6	2.6	0.9	5.8	9.5	9.4	-6.5	-1.1	7.0
Canada	4.4	4.0	5.0	6.1	5.4	3.9	6.1	2.7	1.3	1.8	5.5	3.1	2.8
West Germany .....	.2	1.3	2.8	3.4	1.9	3.0	2.5	1.7	0.8	1.5	1.9	2.4	7.0
United Kingdom ...	4.1	4.9	7.8	8.3	6.5	7.6	8.7	15.7	26.1	12.4	7.4	8.5	10.5
France	3.3	2.7	3.5	3.9	2.9	3.9	3.0	2.6	1.6	2.9	2.3	2.8	7.7
Italy	4.6	5.0	6.6	7.5	5.6	5.9	5.8	5.4	4.9	5.2	5.6	7.1	10.7

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, October 5, 1990.Unemployment rates, (total labor force basis)¹ by selected countries and by specified periods, January 1987-August 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989			1990						
				II	III	IV	I	II	Apr.	May	Jun.	Jul.	Aug.
United States	6.1	5.4	5.2	5.2	5.2	5.3	5.2	5.2	5.3	5.3	5.1	5.4	5.5
Japan	2.9	2.5	2.3	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.2	2.1	(³)
Canada	8.8	7.7	7.5	7.6	7.3	7.5	7.5	7.4	7.2	7.6	7.5	7.8	8.3
West Germany	6.2	6.2	5.6	5.7	5.6	5.5	5.3	5.2	5.2	5.2	5.2	5.2	5.1
United Kingdom ...	10.2	8.2	6.4	6.5	6.2	5.8	6.1	6.1	6.1	6.1	6.1	6.2	6.3
France	10.5	10.1	9.9	9.9	9.9	9.8	9.4	9.3	9.3	9.3	9.4	9.4	9.3
Italy	7.7	7.8	7.7	7.8	7.7	7.5	7.2	6.6	(²)	(²)	(²)	(²)	(²)

¹ Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.² Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.³ Not available.Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, October 1990.

Money-market interest rates,¹ by selected countries and by specified periods, January 1987–September 1990

(Percentage, annual rates)

Country	1987	1988	1989	1989			1990						
				II	III	IV	I	II	May	Jun.	Jul.	Aug.	Sept.
United States	7.0	7.8	9.3	9.7	8.9	8.6	8.4	8.4	8.3	8.2	8.1	8.1	8.1
Japan	3.9	4.4	5.3	5.1	5.4	5.6	6.2	6.7	6.8	7.4	7.7	8.2	8.3
Canada	8.4	9.6	12.2	12.3	12.3	12.4	12.8	(²)	(²)	13.7	13.5	13.0	12.5
West Germany	4.0	4.3	7.0	6.8	7.2	8.3	8.4	8.4	8.4	8.2	8.1	8.3	8.3
United Kingdom	9.6	8.9	13.3	13.5	14.0	15.2	15.2	15.2	15.2	14.8	14.9	14.9	14.8
France	8.1	7.9	9.2	8.8	9.2	10.3	11.0	9.9	9.7	9.9	9.9	10.1	10.2
Italy	11.2	11.0	12.7	12.5	12.9	13.3	13.3	12.8	12.9	(²)	(²)	(²)	(²)

¹ 90-day certificate of deposit.² Not available.

Source: Federal Reserve Statistical Release, April 2, 1990. Economic and Energy Indicators, Central Intelligence Agency, October 5, 1990. Selected Interest and Exchange Rates, Board of Governors Federal Reserve System, October 15, 1990.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1987–August 1990

(Percentage change from previous period)

Item	1987	1988	1989	1989		1990							
				III	IV	I	II	Mar.	Apr.	May	Jun.	Jul.	Aug.
Unadjusted:													
Index ¹	94.1	88.0	91.3	92.8	91.0	89.6	89.7	90.6	90.4	89.4	89.4	87.0	84.8
Percentage change	-11.2	-6.5	6.4	.3	-1.9	-.4	.1	1.6	-.2	-1.1	0	-2.7	-2.6
Adjusted:													
Index ¹	91.8	87.4	91.8	93.0	91.8	95.1	95.1	91.5	91.3	94.7	95.0	92.8	91.4
Percentage change	-10.6	-4.8	6.8	.1	-1.1	3.5	0	1.7	-.2	3.5	.3	-2.3	-1.5

¹ 1980–82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, September 1990.

Trade balances, by selected countries and by specified periods, January 1987–August 1990

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1987	1988	1989	1989		1990					
				III	IV	I	II	May	Jun	Jul.	Aug.
United States ¹	-152.1	-118.5	-108.7	-107.2	-112.9	-101.2	-87.6	-93.2	-64.0	-109.2	-111.6
Japan	96.3	94.9	77.3	76.8	57.2	64.8	58.4	46.8	79.2	57.6	(²)
Canada	8.6	8.0	6.4	3.6	.8	6.0	10.8	6.0	18.0	12.0	(²)
West Germany ²	65.7	72.7	72.1	74.4	65.2	90.0	62.0	70.8	48.0	63.6	(²)
United Kingdom	-16.9	-36.9	-37.9	-40.8	-27.6	-38.4	-33.6	-28.8	-32.4	-36.0	(²)
France	-5.2	-5.4	-6.6	-8.0	-8.4	-1.6	-7.6	-12.0	-2.4	-10.8	(²)
Italy	-8.3	-10.7	-12.8	-12.0	-9.6	-14.4	-21.6	-18.0	-4.8	-9.6	(²)

¹ 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

² Imports, c.i.f. value, adjusted.

³ Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, October 5, 1990 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, October 18, 1990.

U.S. trade balance,¹ by major commodity categories, and by specified periods, January 1987–July 1990

(Percentage, annual rates)

Country	1987	1988	1989	1989		1990					
				III	IV	I	Apr.	May	Jun.	Jul.	Aug.
Commodity categories:											
Agriculture	7.0	13.9	17.9	3.5	5.1	4.9	1.4	1.3	1.4	1.0	1.2
Petroleum and selected product— (unadjusted)	-39.5	-38.1	-44.7	-11.4	-11.4	-14.1	-3.4	-4.0	-3.4	-3.7	-4.4
Manufactured goods	-146.1	-146.1	-103.2	-27.1	-27.7	-19.4	-6.1	-6.5	-6.9	-10.2	-9.4
Selected countries:											
Western Europe	-27.9	-12.5	-1.3	-.3	-.6	1.4	1.3	.8	.8	-1.3	-.4
Canada ²	-11.5	-9.7	-9.6	-2.2	-2.8	-.9	.04	-.6	-.7	-1.0	-.5
Japan	-58.0	-51.7	-49.0	-12.0	-12.2	-9.6	-3.9	-2.9	-3.1	-3.0	-3.8
OPEC (unadjusted)	-13.7	-8.9	-17.3	-5.0	-4.3	-1.8	-1.4	-1.7	-1.2	-1.6	-2.2
Unit value of U.S. imports of petroleum and selected products (unadjusted) ³	\$15.02	\$18.12	\$16.80	\$16.38	\$17.46	\$19.26	\$16.57	\$15.57	\$14.64	\$14.50	\$19.54

¹ Exports, f.a.s. value, unadjusted. 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

² Beginning with February 1987, figures include previously undocumented exports to Canada.

³ Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, October 18, 1990.

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